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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

DII5018 – INTRODUCTION TO INVESTMENT (For Diploma Students Only)

15 OCTOBER 2016
2.30 pm - 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE (9)** pages only excluding the cover page.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR sheet provided.
4. For Section B, please write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).

1. The commitment of current funds in anticipation of receiving a larger future flow of funds is called _____.
 - A. a financial asset
 - B. a real asset
 - C. an investment
 - D. none of the above

2. A direct equity claim arises through investment in _____.
 - A. bonds and other debt instruments
 - B. common stocks
 - C. preferred stock
 - D. none of the above.

3. A(n) _____ is a legally documented claim on an asset, while a _____ is an actual, tangible asset which may be seen, felt, held, or collected.
 - A. real asset; financial asset
 - B. financial asset; real asset
 - C. indirect equity claim; direct equity claim
 - D. none of the above.

4. Which of the following is NOT an example of investments for growth oriented stage?
 - A. Common stocks
 - B. Options
 - C. Futures
 - D. Preferred stock

5. Which of the following is a TRUE statement?
 - A. To be useful, investment objectives must be specific.
 - B. Investment goals are the same for each individual.
 - C. Because investment objectives deal with the future, it is useless to plan more than five years in the future.
 - D. A long-term investment objective involves a time period of five years or less.

6. An emergency fund should be deposited in a _____.
 - A. savings account at the highest available interest rate.
 - B. six month certificate of deposit.
 - C. checking account.
 - D. safe place at home.

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7. Which of the following investments would rank the highest with regard to safety?
- A. government bonds
 - B. common stock
 - C. corporate bonds
 - D. real estate
8. The ease with which an investment can be converted to cash without a substantial loss in dollar value is called the _____.
- A. asset value
 - B. ease of liquidity
 - C. immediate quotient
 - D. variable cost factor
9. A type of investment that combines and invests the funds of many investors and manages it with a professional manager is called a _____.
- A. bond
 - B. securities exchange.
 - C. certificate of deposit.
 - D. mutual fund.
10. Financial intermediaries exist because small investors cannot efficiently _____.
- A. diversify their portfolios
 - B. gather all relevant information
 - C. assess credit risk of borrower
 - D. all of the above
11. If a company decides to issue new securities, these should be issued in _____.
- A. Primary market
 - B. Secondary market
 - C. Third market
 - D. Fourth market
12. Which of the following refers selling stock borrowed from another investor?
- A. A Long position
 - B. A Margin trade
 - C. A Short sale
 - D. A Limit order

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13. An issue of equity to the public by a firm that currently has publicly traded equity is referred to as _____.
- A private placement
 - An initial public offering
 - A shelf registration
 - A seasoned offering
14. The price an individual investor will pay to purchase a stock in the Over The Counter market is the _____.
- ask price.
 - spread.
 - bid price.
 - broker price.
15. Firms that specialize in helping companies raise capital by selling securities are called _____.
- commercial banks
 - investment banks
 - savings banks
 - credit union
16. Choose below statement that describes the underwriting syndicate :
- facilitates the sale of new securities;
 - is formed by the originating banker;
 - creates a secondary market in stocks
- I and II
 - I and III
 - II and III
 - all of the above
17. The final prospectus does not include _____.
- the firm's balance sheet
 - the price of the securities sold to the public
 - the underwriter's profit on the sale
 - the underwriting discount
18. A market maker _____.
- sells stock at the ask price;
 - buys stock at the ask price;
 - sells stock at the bid price;
 - buys stock at the bid price

Continued...

- A. I and II
- B. I and IV
- C. II and III
- D. III and IV

19. If a stock is bought on margin, _____.

- A. The whole investment value is being finance using investor's own fund
- B. part of the cost of investment is borrowed
- C. the commissions on the investment are increased
- D. the cost of the investment is reduced

20. Creating prices for securities and allowing for liquidity are functions of _____.

- A. the primary market.
- B. the secondary market.
- C. the third market.
- D. the real estate market.

21. The additional return earned for accepting risk is called the _____.

- A. inflated return.
- B. real return.
- C. riskless rate.
- D. risk premium.

22. The total dollar return on a share of stock is defined as the _____.

- A. dividend income divided by the beginning price per share.
- B. capital gain or loss plus any dividend income.
- C. change in the stock price divided by the original stock price.
- D. annual dividend income received.

23. On the year of 2015, ABC stock returned 11.4 percent, the risk-free rate was 3.2 percent, and the inflation rate was 2.8 percent. What is the risk premium on ABC stock?

- A. 6.00 percent
- B. 8.20 percent
- C. 8.43 percent
- D. 8.60 percent

24. What would the holding period return for a stock that increased in value from RM60 per share to RM63 per share and paid a RM3.00 dividend?

- A. 12%
- B. 11%
- C. 10%
- D. none of the above

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25. The proverb "the sooner one receives a return on a given investment, the better," reflects the financial concept known as the _____.
- A. Time value of money.
 - B. Total Return concept
 - C. Required return concept
 - D. Historical dividend theory
26. The two components that make up the risk-free rate are _____.
- A. real rate of return and capital gains
 - B. risk-free assets and capital gains
 - C. real rate of return and the inflation factor
 - D. real assets and the inflation factor.
27. Because most investors are risk averse, _____.
- A. the riskier the investment, the more the investor will pay for it.
 - B. the riskier the investment, the less compensation the investor requires.
 - C. only financial institutions invest in risky assets.
 - D. they will require a higher rate of return for a riskier investment.
28. Salmah purchased a share of stock for RM20. One year later she received a RM1 dividend and sold the share for RM24. What was Salmah's holding period return?
- A. 20.8 percent
 - B. 30.0 percent
 - C. 33.6 percent
 - D. 25.0 percent
29. What factors must be considered in choosing between investment alternatives?
- A. risk and liquidity
 - B. interest or dividends vs. capital gains
 - C. time frame for managing funds and evaluating performance and tax effects.
 - D. all of the above
30. An investment in common stock carries a higher return than a bank certificate of deposit. The difference in returns is called _____.
- A. the risk-free rate
 - B. the real rate of return
 - C. the risk premium
 - D. none of the above

Continued...

31. Portfolio theory is based on the idea that:

- A. Combining investments increases returns
- B. Combining investments makes companies easier to run
- C. Combining investments reduces risk
- D. Shareholders like companies that have a wide range of interests

32. Company H has a share beta of 1.5 whilst company L has a share beta of 0.8. This means that other things being equal:

- A. H will outperform L when the market is rising
- B. L will outperform H when the market is rising
- C. H will always outperform L
- D. The returns on H will be 1.5/0.8 that of L

33. Which of the following measures or concepts are used by modern portfolio theory?

- I. beta
- II. inter industry diversification
- III. efficient frontier
- IV. correlation

- A. II and III only
- B. I and IV only
- C. I, III and IV only
- D. I, II, III and IV

34. In which of the following risks the factors are specific, unique and related to the particular industry or company?

- A. Pressure risk
- B. Unsystematic risk
- C. Odd risk
- D. Even risk

35. This type of risk is unavoidable through proper diversification.

- A. portfolio risk
- B. systematic risk
- C. unsystematic risk
- D. total risk

36. An "aggressive" common stock would have a "beta" _____.

- A. equal to zero.
- B. greater than one.
- C. equal to one.
- D. less than one.

Continued...

37. The risk-free security has a beta equal to _____, while the market portfolio's beta is equal to _____.
- one; more than one.
 - one; less than one.
 - zero; one.
 - less than zero; more than zero.
38. The Capital Asset Pricing Model (CAPM) is a mathematical model that depicts the:
- positive relationship between risk and return.
 - standard deviation between a risk premium and an investment's expected return.
 - exact price that an investor should be willing to pay for any given investment.
 - difference between a risk-free return and the expected rate of inflation.
39. Traditional portfolio managers prefer well-known companies because
- stocks of well-known firms tend to be less risky than stocks of lesser-known firms.
 - individuals are more apt to purchase a mutual fund if it contains stocks of well-known firms.
 - window dressing encourages the purchase of well-known stocks.
 - institutional investors tend to exhibit "herd-like" behavior.
- I only
 - I and II only
 - II and III only
 - I, II , III, and IV
40. To obtain the maximum reduction in risk, an investor should combine assets that
- are negatively correlated.
 - are uncorrelated.
 - have a correlation coefficient of positive one.
 - have a correlation coefficient of negative one.

[TOTAL 40 MARKS]

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SECTION B: STRUCTURED QUESTIONS**QUESTION 1**

Amirah had just started as an investor. She learnt that stock price is not fixed, will fluctuate from time to time, therefore she wants to benefit from this price movement. She bought 500 unit of shares of Kirana Berhad at RM 1.20 per share, with a margin of 60%. Assume bank's required margin is 70%. Based on this scenario of Amirah's, answer the following question.

- a) Calculate the debit balance for Amirah's transaction. (1.5 marks)
- b) How much equity capital must Amirah provide for this margin transaction? (1.5 marks)
- c) If Kirana Berhad share price rises by RM 0.20 per share, what will be the new margin position? (3 marks)
- d) Will there be a margin call in part (c.)? If yes, how much is the new debit balance in order to maintain the 70% margin? (4 marks)
- e) Calculate the total return on invested capital for Amirah if she sells Kirana Berhad shares at the price of RM 1.60 with the assumption of 0.85% interest charged on margin, and dividend received were RM 0.20 per share. (5 marks)

(Total 15 marks)

QUESTION 2

- a) Name the THREE (3) steps in "Top Down" approach of traditional security analysis. (3 marks)
- b) Given the following information for the year ended 2015.

	<u>RM</u>
Total Current Assets	38,200
Fixed Assets	108,000
Interest Expense	15,000
Total Current Liabilities	28,300
Account Payable	14,125
Sales	100,800
Account Receivable	18,100
Long-Term Debt	38,800
Inventory	18,050
Long Term Debt	38,800
Total Equity	79,100

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Calculate:

- i. Liquidity ratios. (4 marks)
- ii. Activity ratios. (6 marks)

- c) Suggest to your friends any **TWO (2)** ratios that can be used to measure the profitability of a company. (2 marks)

(Total 15 marks)

QUESTION 3

- a) At 1st January 2007, the Durian-Durian Sdn. Bhd. issues callable bonds at par of RM1,500. The coupon rate is 10.5 percent compounded annually and will matured in 31th December 2025. The bonds currently sell at RM2,500 and the call price is RM2,050. Durian-Durian Sdn. Bhd. plan to call the bonds five year before the maturity date. Assume today is 1st January 2016.

Calculate:

- i. Current yield. If the required current yield is 8 percent would you invest? (3 marks)
 - ii. Yield to maturity. (4.5 marks)
 - iii. Yield to call. (4.5 marks)
- b) State any **THREE (3)** bond investment strategies. (3 marks)

(Total 15 marks)

QUESTION 4

- a) The Pyramid Asset Management Berhad expected the sphinx fund assets is RM5 millions and the liabilities is RM500,000 when the market close. Currently the sphinx fund has 2.55 million units outstanding.

- i. Calculate the NAV per unit. (2 marks)
 - ii. If the investor invests RM5,000. Calculate the total units of the mutual fund. (2 marks)
 - iii. If the NAV of the fund increased to RM2.00, calculate the total return in percentage. (3 marks)
 - iv. If the investor required a 6 percent return for the mutual fund invested, would you recommend the investor to invest in this mutual fund? State your reason? (2 marks)
- b) List down any **SIX (6)** factors in comparing mutual funds. (6 marks)

(Total 15 marks)

[TOTAL 60 MARKS]

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